

American Recovery and Reinvestment Act Update

February 13, 2009

Dear Friend,

Today I voted for and the House of Representatives passed the American Recovery and Reinvestment Act. This legislation is the first crucial step in a concerted effort to create and save 3 to 4 million jobs, jumpstart our economy and begin transforming it with \$478 billion in economic recovery tax cuts and \$311 billion invested in targeted priorities.

This e-newsletter is very long and detailed because of the many provisions in the bill. As you read it, you will see that there are short-term investments to address unemployment, healthcare help, and assistance to states in fiscal crisis. It also addresses creating jobs through critical sectors of public infrastructure, technology, science, and energy independence, all building blocks for America's future.

This package contains unprecedented accountability and transparency measures to help ensure tax dollars are spent wisely and help restore confidence — another critical component of this recovery. There are no earmarks or pet projects whatsoever. In many cases funds are distributed to existing initiatives with proven track records and with tough accountability measures already in place. All announcements of contract, grant competitions, awards, as well as formula grant allocations must be posted on a special website created by the President.

Below are the highlights of the legislation:

High Tech and Green Tech Provisions

- \$7.2 billion for Broadband to increase broadband access and usage in unserved and underserved areas of the nation, which will better position the U.S. for economic growth, innovation, and job creation.
- \$11 billion for smart-grid related activities, including work to modernize the electric grid.
- \$6.3 billion for energy efficiency and conservation grants.

- \$2.5 billion for energy efficiency and renewable energy research.
- \$2 billion in grant funding for the manufacturing of advanced batteries systems and components and vehicle batteries that are produced in the United States.
- \$6 billion for new loan guarantees aimed at standard renewable projects such as wind or solar projects and for electricity transmission projects.
- \$1 billion for other energy efficiency programs including alternative fuel trucks and buses, transportation charging infrastructure, and smart and energy efficient appliances.
- \$19 billion, including \$2 billion in discretionary funds and \$17 billion for investments and incentives through Medicare and Medicaid to ensure widespread adoption and use of interoperable health information technology (IT). This provision will grow jobs in the information technology sector, and will jumpstart efforts to increase the use of health IT in doctors' offices, hospitals and other medical facilities. This will reduce health care costs and improve the quality of health care for all Americans.

Education

- Nationwide, \$53.6 billion has been appropriated for the State Fiscal Stabilization Fund, including \$39.5 billion to local school districts using existing funding formulas which can be used for preventing cutbacks and layoffs.
- The bill includes \$13 billion in Title I money to be used for targeted grants from the Elementary and Secondary Education Act (ESEA), education finance incentive grants, school improvement grants, and education grants to help disadvantaged kids reach higher academic standards.
- \$12.2 billion will be used for increased funding for the Individuals with Disabilities Education Act (IDEA). It has been included to fund grants to schools to increase the federal share of special education costs and prevent these mandatory costs from forcing states to cut other areas of education.
- \$15.6 billion is added to the maximum Pell Grant by \$500. This aid will help 7 million students pursue postsecondary education.
- Head Start & Early Head Start programs are boosted by \$2.1 billion to allow an additional 124,000 children to participate in this program, providing development, educational, health, nutritional, social and other activities that prepare children to succeed in school.
- \$3.95 billion is provided for job training programs, including \$1.2 billion to create up to one million summer jobs for youth.

Health Care

- COBRA/ Medicaid Options for the Uninsured: The legislation contains two provisions intended to provide health insurance coverage to individuals who lose their jobs and are

subsequently uninsured.

The bill provides temporary subsidies for COBRA premiums so that people who have lost their jobs can continue health care coverage and gives state Medicaid programs a temporary option of covering one or more of the following groups of unemployed individuals without health insurance, and their dependents: Those receiving unemployment benefits, and those who have exhausted their unemployment benefits, those who are receiving food stamps but who are not otherwise eligible for Medicaid and those in families with a gross income under 200% of the poverty level.

State Medicaid Relief

Temporary Medicaid FMAP Increase: The legislation provides for additional federal matching funds to help states maintain their Medicaid programs in the face of recession-driven revenue declines and caseload increases.

Temporary DSH Increase: A 2.5% increase in the Disproportionate Share Hospital adjustment for Fiscal Year 2009 will help hospitals who demonstrate more than 30% of their total net in-patient care revenues come from state and local governments for low-income patients. For Fiscal Year 2010, states will get a 2.5% increase above FY09 increased levels.

Moratorium of Medicaid Regulations: Current law imposes a moratorium on six Medicaid regulations relating to cost limits on public providers, graduate medical education payments, provider taxes, rehabilitative services, targeted case management services, and school administration and transportation services. The bill extends the current moratorium which expires March 31, 2009 to June 30, 2009.

Tax Cuts For Individuals

- **Extension of AMT Relief for 2009:** The bill would provide more than 26 million families with tax relief in 2009 by extending AMT relief for nonrefundable personal credits and increasing the AMT exemption amount to \$70,950 for joint filers and \$46,700 for individuals.

- **“Pay” Tax Credit:** The bill would cut taxes for

more than 95% of working families in the United States. For 2009 and 2010, the bill would provide a refundable tax credit of up to \$400 for working individuals and \$800 for working families. This tax credit would be calculated at a rate of 6.2% of earned income, and would phase out for taxpayers with adjusted gross income in excess of \$75,000 (\$150,000 for married couples filing jointly). Taxpayers can receive this benefit through a reduction in the amount of income tax that is withheld from their paychecks, or through claiming the credit on their tax returns.

- **Increase in Earned Income Tax Credit:** The bill would temporarily increase the earned income tax credit for working families with three or more children. Under current law, working families with two or more children qualify for an earned income tax credit equal to 40% of the family's first \$12,570 of earned income. This credit is subject to a phase-out for working families with adjusted gross income in excess of \$16,420 (\$19,540 for married couples filing jointly). The bill would increase the earned income tax credit to 45% of the family's first \$12,570 of earned income for families with three or more children and would increase the beginning point of the phase-out range for all married couples filing a joint return (regardless of the number of children) by \$1,880.

- **Increase Eligibility for the Refundable Portion of the Child Tax Credit:** The bill would increase the eligibility for the refundable child tax credit in 2009 and 2010. For 2008, the child tax credit is refundable to the extent of 15% of the taxpayer's earned income in excess of \$8,500. The bill would reduce this floor for 2009 and 2010 to \$3,000.

- **"American Opportunity" Education Tax Credit.** The bill would provide financial assistance for individuals seeking a college education. For 2009 and 2010, the bill would provide taxpayers with a new "American Opportunity" tax credit of up to \$2,500 of the cost of tuition and related expenses paid during the taxable year. Under this new tax credit, taxpayers will receive a tax credit based on 100% of the first \$2,000 of tuition and related expenses (including books) paid during the taxable year and 25% of the next \$2,000 of tuition and related expenses paid during the taxable year. 40% of the credit would be refundable. This tax credit will be subject to a phase-out for taxpayers with adjusted gross income in excess of \$80,000 (\$160,000 for married couples filing jointly).

- **Computers as Qualified Education Expenses in 529 Education Plans:** Section 529 Education Plans are tax-advantaged savings plans that cover all qualified education expenses, including tuition, room & board, mandatory fees and books. The bill provides that computers and computer technology qualify as education expenses.

- **Refundable First-time Home Buyer Credit:** Last year, Congress provided taxpayers with a refundable tax credit that was equivalent to an interest-free loan equal to 10% of the purchase of a home (up to \$7,500) by first-time home buyers. The provision applies to homes purchased on or after April 9, 2008 and before July 1, 2009. Taxpayers receiving this tax credit are currently required to repay any amount received under this provision back to the government over 15 years in equal installments, or, if earlier, when the home is sold. The credit phases out for taxpayers with adjusted gross income in excess of \$75,000 (\$150,000 in the case of a joint return). The bill eliminates the repayment obligation for taxpayers that purchase homes after January 1, 2009, increases the maximum value of the credit to \$8,000, and removes the prohibition on financing by mortgage revenue bonds, and extends the availability of the credit for homes purchased before December 1, 2009. The provision would retain the credit recapture if the house is sold within three years of purchase.

- Sales Tax Deduction for Vehicle Purchases: The bill provides all taxpayers with a deduction for State and local sales and excise taxes paid on the purchase of new cars, light trucks, recreational vehicles, and motorcycles through 2009. This deduction is subject to a phase-out for taxpayers with adjusted gross income in excess of \$125,000 (\$250,000 in the case of a joint return).
- Temporary Suspension of Taxation of Unemployment Benefits: Under current law, all federal unemployment benefits are subject to taxation. The average unemployment benefit is approximately \$300 per month. The proposal temporarily suspends federal income tax on the first \$2,400 of unemployment benefits per recipient. Any unemployment benefits over \$2,400 will be subject to federal income tax. This proposal is in effect for taxable year 2009.
- Extension of Emergency Unemployment Compensation: Through December 31, 2009, the bill continues the Emergency Unemployment Compensation program, which provides up to 33 weeks of extended unemployment benefits to workers exhausting their regular benefits. It increases unemployment weekly benefits by an additional \$25 through 2009.

Science and Energy Funding and Incentives

- Federal Building Energy Efficiency - \$4.5 billion
- Fossil Energy Research and Development - \$3.4 billion
- Weatherization Assistance Program - \$5 billion
- National Aeronautics and Space Administration (NASA) - \$1 billion
- National Science Foundation - \$3 billion
- Science at the Department of Energy - \$2 billion, including \$400 million to Advanced Research Projects Agency-Energy (ARPA-E)
- National Oceanic and Atmospheric Association - \$830 million
- National Institute of Standards and Technology - \$580 million which includes the Technology Innovation Program
- and the Manufacturing Extension Partnership.

Energy Tax Credits:

Advanced Energy Investment Credit: Establishes a new manufacturing investment tax credit for investment in advanced energy facilities, such as facilities that manufacture components for the production of renewable energy, advanced battery technology, and other innovative next-generation green technologies.

Plug-in Hybrid Vehicles: Provides a tax credit for families that purchase plug-in hybrid vehicles of up to \$7,500 to spur the next generation of American cars.

Long-term Extension and Modification of Renewable Energy Production Tax Credit: Includes a three-year extension of the production tax credit (PTC) for electricity derived from wind (through 2012) and for electricity derived from biomass, geothermal, hydropower, landfill gas, waste-to-energy, and marine facilities (through 2013).

Temporary Election to Claim the Investment Tax Credit in Lieu of the Production Tax Credit: Facilities that produce electricity from wind, closed-loop biomass, open-loop biomass, geothermal, small irrigation, hydropower, landfill gas, waste-to-energy, and marine renewable facilities are eligible for a production tax credit. The bill would allow facilities to elect to claim the investment tax credit in lieu of the production tax credit.

Removal of Dollar Limitations on Certain Energy Credits: The bill would repeal the individual dollar caps. As a result, each of these properties would be eligible for an uncapped thirty percent (30%) credit.

Repeal Subsidized Energy Financing Limitation on the Investment Tax Credit: The bill would repeal this subsidized energy financing limitation on the investment tax credit in order to allow businesses and individuals to qualify for the full amount of the investment tax credit even if such property is financed with industrial development bonds or through any other subsidized energy financing.

Clean Renewable Energy Bonds ("CREBs"): The bill authorizes an additional \$1.6 billion for new clean renewable energy bonds to finance facilities that generate electricity from the following resources: wind, closed-loop biomass, open-loop biomass, geothermal, small irrigation, hydropower, landfill gas, marine renewable, and trash combustion facilities.

Qualified Energy Conservation Bonds: The bill authorizes an additional \$2.4 billion for qualified energy conservation bonds to finance State, municipal and tribal government programs and initiatives designed to reduce greenhouse gas emissions.

Tax Credits for Energy-Efficient Improvements to Existing Homes: Promotes energy-efficient investments in homes by extending and expanding tax credits through 2010 for purchases such as new furnaces,

energy-efficient windows and doors, or insulation.

Business Tax Incentives

Extension of Bonus Depreciation: Businesses are allowed to recover the cost of capital expenditures over time according to a depreciation schedule. Last year, Congress temporarily allowed businesses to recover the costs of capital expenditures made in 2008 faster than the ordinary depreciation schedule would allow by permitting these businesses to immediately write-off 50% of the cost of depreciable property (e.g., equipment, tractors, wind turbines, solar panels, and computers) acquired in 2008 for use in the United States. The bill would extend this temporary benefit for capital expenditures incurred in 2009.

Election to Accelerate Recognition of Historic AMT/R&D Credits: Last year, Congress temporarily allowed businesses to accelerate the recognition of a portion of their historic AMT or research and development (R&D) credits in lieu of bonus depreciation. The amount that taxpayers may accelerate is calculated based on the amount that each taxpayer invests in property that would otherwise qualify for bonus depreciation. This amount is capped at the lesser of 6% of historic AMT and R&D credits or \$30 million. The bill would extend this temporary benefit through 2009. This proposal is estimated to cost \$805 million over 10 years.

Extension of Enhanced Small Business Expensing: In order to help small businesses quickly recover the cost of certain capital expenses, small business taxpayers may elect to write-off the cost of these expenses in the year of acquisition in lieu of recovering these costs over time through depreciation. Until the end of 2010, small business taxpayers are allowed to write-off up to \$125,000 (indexed for inflation) of capital expenditures subject to a phase-out once capital expenditures exceed \$500,000 (indexed for inflation). Last year, Congress temporarily increased the amount small businesses could write-off for capital expenditures incurred in 2008 to \$250,000 and increased the phase-out threshold for 2008 to \$800,000. The bill would extend these temporary increases for capital expenditures incurred in 2009.

Incentives to Hire Unemployed Veterans and Disconnected Youth: Under current law, businesses are allowed to claim a work opportunity tax credit equal to 40% of the first \$6,000 of wages paid to employees of one of nine targeted groups. The bill would create two new targeted groups of prospective employees: (1) unemployed veterans, and (2) disconnected youth. An individual would qualify as an unemployed veteran if they were discharged or released from active duty from the Armed Forces during the five-year period prior to hiring and received unemployment compensation for more than four weeks during the year before being hired. An individual qualifies as a disconnected youth if they are between the ages of 16 and 25 and have not been regularly employed or attended school in the past 6 months.

Small Business Capital Gains: Under current law, Section 1202 provides a 50% exclusion for the gain from the sale of certain small business stock held for more than five years. The amount of gain eligible for the exclusion is limited to the greater of 10 times the taxpayer's basis in the stock, or \$10 million gain from stock in that small business corporation. This provision is limited to individual investments and not the investments of a corporation. The non-excluded portion of section 1202 gain is taxed at the lesser of ordinary income rates or 28%, instead of the lower capital gains rates for individuals. The provision allows a 75% exclusion for individuals on the gain from the sale of certain small business stock held for more than five years. This change is for stock issued after the date of enactment and before January 1, 2011. This provision is estimated to cost \$829 million over 10 years. Temporary Small Business Estimated Tax Payment Relief. The bill reduces the 2009 required estimated tax payments for certain small businesses.

Transportation and Infrastructure Funding

- The legislation will invest \$8.4 billion for investments in public transportation. State and local governments will be eligible for an additional \$1.5 billion in competitive grants for transportation investments.
- \$9.3 billion will be invested in Amtrak, High Speed and Intercity Rail. The American Recovery and Reinvestment Act will allow high-speed rail exempt facility bonds to be used to develop rail facilities that are used by trains that are capable of attaining speeds in excess of 150 miles per hour.
- The legislation will invest \$27.5 billion for road and bridge investments. These projects create jobs in the short-term, while making needed repairs to our nation's aging infrastructure.

The American Recovery and Reinvestment Act will provide a much needed extension in unemployment benefits and health insurance coverage for the 2 million Californians out of work. According to the Federal Funds Information for States, California will receive \$26 billion in economic recovery funding, which includes \$6 billion for a State Fiscal Stabilization Fund. This bill will create or retain nearly 400,000 jobs in the state, including 7,500 jobs in the 14th Congressional District.

I hope that you find these provisions worthy investments of your tax dollars which will in the short-term prevent the loss of jobs and create new ones, and in the long-term, provide the needed investments to spur innovation.

In 1959, John Kennedy at a campaign rally in Indianapolis said
"the Chinese use two brush strokes to write the word 'crisis'. One
brush stroke stands for danger; the other for opportunity. In a crisis,
be aware of the danger-but recognize the opportunity." I recognize the
dangers of the condition of our country and by voting for this measure,
I recognize the opportunity this moment presents.

If you have any other questions or comments, let me hear from you. I value what my constituents say to me because I
need your thoughts and benefit from your ideas.

Sincerely,

Anna G. Eshoo

Member of Congress